

MOUNT AYR COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2007

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MOUNT AYR COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September, 2006 Election)		
Craig Elliott	President	2007
Beth Whitson	Vice President	2008
Rodney Shields	Board Member	2006
David Richards	Board Member	2006
James Uhlenkamp	Board Member	2008
Board of Education (After September, 2006 Election)		
Craig Elliott	President	2007
James Uhlenkamp	Vice President	2008
Beth Whitson	Board Member	2008
Rodney Shields	Board Member	2009
David Richards	Board Member	2009
School Officials		
Russell Reiter	Superintendent	2007
Janette Campbell	District Secretary/Treasurer	2007
James Pederson	Attorney	Indefinite



Independent Auditor's Report

To the Board of Education
Mount Ayr Community School District
Mount Ayr, Iowa

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Mount Ayr Community School District, Mount Ayr, Iowa as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Mount Ayr Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Governmental Auditing Standards, we have also issued our report dated November 7, 2007, on our consideration of the Mount Ayr Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 13 and 40 through 41 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mount Ayr Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006, (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 7 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Van Maanen & Associates, P.C.

Van Maanen & Associates, P.C.
Certified Public Accountants

November 7, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Mount Ayr Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

General Fund revenues increased from \$6,332,565 in fiscal 2006 to \$6,617,385 in fiscal 2007. General Fund expenditures decreased from \$6,670,436 in fiscal 2006 to \$6,637,473 in fiscal 2007. The District's General Fund balance increased from -\$396,994 in fiscal 2006 to -\$388,599 in fiscal 2007.

The increase in General Fund revenues was attributable to increased property taxes, tuition, and increased Federal funding. The decrease in expenditures was due primarily to budget cuts in all areas of the General Fund.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the Mount Ayr Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Mount Ayr Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Mount Ayr Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the non-major Special Revenue Funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

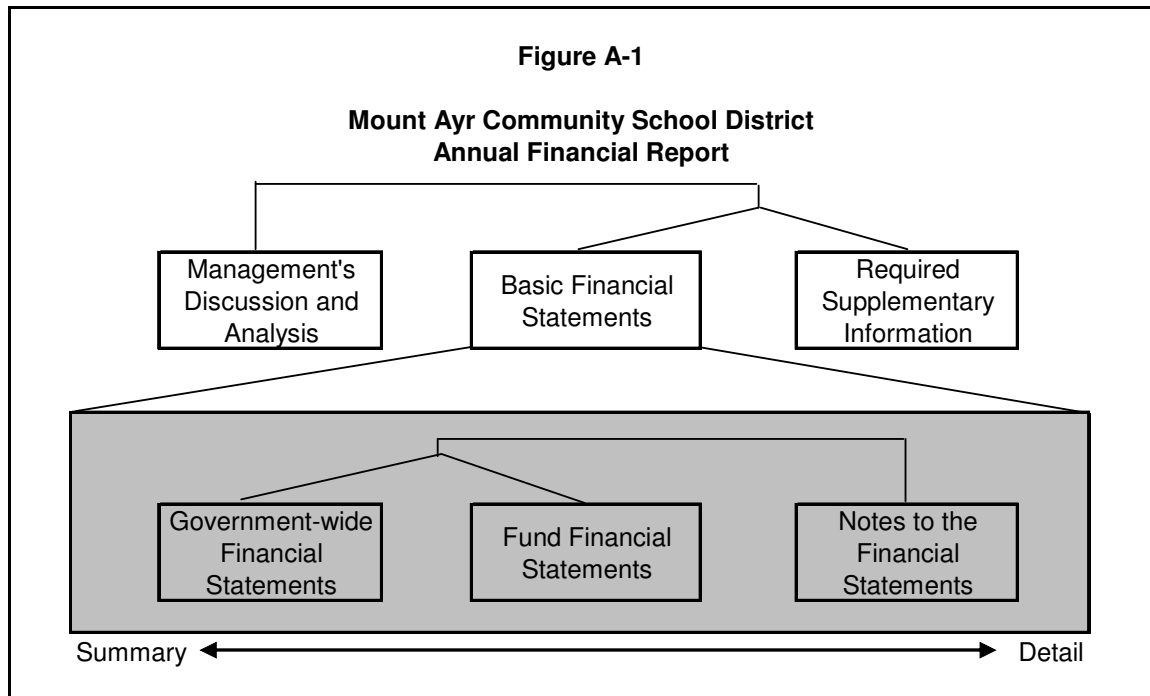


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the District-Wide and Fund Financial Statements				
	District-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

Governmental activities: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.

Business type activities: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) **Governmental funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) **Proprietary funds:** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has two Enterprise Funds, the School Nutrition Fund and the Student Construction Fund.

The required financial statements for proprietary funds include a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

- 3) Fiduciary funds: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency Funds.

Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

Agency Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3 Condensed Statement of Net Assets							
	Business Type				Total		
	Governmental Activities		Activities		Total		Total Change
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006	2006-2007
Current and other assets	\$ 6,115,031	4,902,295	66,697	55,409	6,181,728	4,957,704	24.7%
Capital assets	6,446,907	6,649,106	30,149	30,905	6,477,056	6,680,011	-3.0%
Total assets	12,561,938	11,551,401	96,846	86,314	12,658,784	11,637,715	8.8%
Long-term debt obligations	278,394	262,561	-	-	278,394	262,561	6.0%
Other liabilities	6,014,669	4,867,389	25,475	25,899	6,040,144	4,893,288	23.4%
Total liabilities	6,293,063	5,129,950	25,475	25,899	6,318,538	5,155,849	22.6%
Net assets							
Invested in capital assets, net of related debt	6,331,513	6,641,518	30,149	30,905	6,361,662	6,672,423	-4.7%
Restricted	453,475	403,244	-	-	453,475	403,244	12.5%
Unrestricted	(516,113)	(623,311)	41,222	29,510	(474,891)	(593,801)	-20.0%
Total net assets	\$ 6,268,875	6,421,451	71,371	60,415	6,340,246	6,481,866	-2.2%

The District's combined net assets decreased by nearly 2.2%, or approximately \$141,620 over the prior year. The largest portion of the District's net assets is invested in capital assets, e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$50,231, or 12.5% over the prior year. The increase was primarily a result of increased revenues in the Capital Projects Fund. A decrease in expenditures from the PPEL and Capital Project Funds resulted in larger fund balances in these two funds which resulted in larger "restricted" funds.

Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations without constraints by debt covenants, enabling legislation or other legal requirements) decreased approximately \$118,910 or -20.0%.

Figure A-4 shows the change in net assets for the year ended June 30, 2007.

Figure A-4						
Changes in Net Assets						
	Governmental Activities		Business type Activities		Total District	
	Year ended June 30,	2006	Year ended June 30,	2006	Year ended June 30,	2006
	2007		2007		2007	
Revenues:						
Program revenues:						
Charges for service and sales	\$ 949,644	855,733	167,432	148,580	1,117,076	1,004,313
Operating grants, contributions and restricted interest	943,506	876,050	175,003	172,452	1,118,509	1,048,502
General revenues:						
Property tax	2,391,127	2,267,693	-	-	2,391,127	2,267,693
Local option sales and services tax	375,889	304,795	-	-	375,889	304,795
Unrestricted states grants	2,547,543	2,667,298	-	-	2,547,543	2,667,298
Unrestricted investment earnings	123,257	65,658	1,340	1,113	124,597	66,771
Other	81,741	71,906	-	-	81,741	71,906
Total revenues	<u>7,412,707</u>	<u>7,109,133</u>	<u>343,775</u>	<u>322,145</u>	<u>7,756,482</u>	<u>7,431,278</u>
Program expenses:						
Governmental activities:						
Instruction	4,827,644	4,739,142	-	-	4,827,644	4,739,142
Support services	2,465,427	2,368,756	-	-	2,465,427	2,368,756
Non-instructional programs	22,506	22,451	332,819	350,686	355,325	373,137
Other expenses	251,278	246,254	-	-	251,278	246,254
Total expenses	<u>7,566,855</u>	<u>7,376,603</u>	<u>332,819</u>	<u>350,686</u>	<u>7,899,674</u>	<u>7,727,289</u>
Change in net assets	<u>\$ (154,148)</u>	<u>(267,470)</u>	<u>10,956</u>	<u>(28,541)</u>	<u>(143,192)</u>	<u>(296,011)</u>

Property tax and unrestricted state grants account for 66.62% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 96.38% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$7,412,707 and expenses were \$7,566,855. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues and using carryover balances.

The following table (Figure A-5) presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5				
Total and Net Cost of Governmental Activities				
	Total Cost of Services		Net Cost of Services	
	Year ended June 30,		Year ended June 30,	
	2007	2006	2007	2006
Instruction	\$ 4,827,644	4,739,142	\$ 3,162,773	3,279,476
Support services	2,465,437	2,368,756	2,465,277	2,318,756
Non-instructional programs	22,506	22,451	22,506	22,451
Other expenses	251,278	246,254	23,149	24,137
Totals	\$ 7,566,865	7,376,603	\$ 5,673,705	5,644,820

The cost financed by users of the District's programs was \$949,644.

Federal and state governments subsidized certain programs with grants and contributions totaling \$943,506.

The net cost of governmental activities was financed with \$2,767,016 in property and other taxes and \$2,547,543 in unrestricted state grant.

Business Type Activities

Revenues for business type activities were \$343,775 and expenses were \$332,819. The District's business type activities include the School Nutrition Fund and Student Construction Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

The district increased meal prices in 2006-2007. This increase has resulted in increased revenue to the School Nutrition Fund which the District will utilize in the future replacement of obsolete kitchen equipment. The district has also has increased revenues in the business type activities with the additional student construction project work.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Mount Ayr Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$64,876, above last year's ending fund balances of \$6,250. The primary reason for the increase in combined fund balances in fiscal 2007 is due the increase in the General Fund Balance.

Governmental Fund Highlights

The District's General Fund financial position has improved over the 2005-2006 school year. The General Fund balance increased from \$-396,994 in 2005-2006 to \$-388,599 in 2006-2007, due in part to budget cuts. The approved ending fund balance for 2006-2007 was \$-761,292. By implementing budget cuts in all areas, the district was able to decrease the ending fund balance by almost half.

The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$95,137 in fiscal 2006 to \$23,462 in fiscal 2007. The District did not levy for the PPEL Fund and used the PPEL fund to pay for the principal and interest payments on the Energy Management Loan. There was a net change in fund balance of (\$71,675).

The Capital Projects Fund balance increased from \$167,151 to \$298,193 due to the revenues collected from the One Cent Local Option Sales Tax. The District kept expenditures down in order to have a carry over balance to add to the 2008 budget year.

Propriety Fund Highlights

Proprietary Fund net assets increased from \$60,415 at June 30, 2006 to \$71,371 at June 30, 2007, representing an increase of approximately 15.35%. As previously noted, the District increased meal prices in 2006-2007.

BUDGETARY HIGHLIGHTS

Over the course of the year, The Mount Ayr Community School District amended its annual budget one time to reflect additional expenditures associated with the additional instructional programs and other unanticipated expenditures

The District's receipts were \$198,256 more than budgeted receipts. The most significant variance resulted from the revenue in the General and Capital Projects Funds.

Total expenditures were \$324,139 less than budgeted, due primarily to the District's budget for the General, School Nutrition and Capital Projects Funds. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Funds. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

At June 30, 2007, the District had invested \$6.47 million, net of accumulated depreciation in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of .3% from last year.

Figure A-6							
Capital Assets, net of Depreciation							
	Business Type				Total		
	Governmental Activities		Activities		Total School District		Change
	June 30,	June 30,	June 30,	June 30,	June 30,	June 30,	June 30,
	2007	2006	2007	2006	2007	2006	2006-2007
Land	\$ 118,185	118,185	-	-	118,185	118,185	0.0%
Buildings	5,184,920	5,361,370	-	-	5,184,920	5,361,370	-3.3%
Improvements other than buildings	151,102	164,246	-	-	151,102	164,246	-8.0%
Furniture and equipment	992,700	1,005,305	30,149	30,905	1,022,849	1,036,210	-1.3%
Totals	<u>\$6,446,907</u>	<u>6,649,106</u>	<u>30,149</u>	<u>30,905</u>	<u>6,477,056</u>	<u>6,680,011</u>	<u>-3.0%</u>

Long-Term Debt

At June 30, 2007, the district had \$278,394 in general obligation, revenue and other long-term debt outstanding. This represents an increase of approximately 6.0% from last year. (See Figure A-7).

Figure A-7			
Outstanding Long-Term Obligations			
June 30,			
	2007	2006	Change
Instruction	\$ 115,394	137,861	-16.3%
Non-instructional programs	163,000	124,700	30.7%
Totals	\$ 278,394	262,561	6.0%

On October 1, 2001 the District authorized Energy Management Improvement Capital Loan Notes in the amount of \$225,000 bearing interest and maturing each year until December 1, 2011

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

The Mount Ayr Community School District passed a \$6.7 million dollar bond referendum on October 16, 2007 by a 64% majority. The district will add a middle school gymnasium and locker rooms to the secondary facility while it will replace the 1936 elementary building with new classrooms, lunchroom, multi-purpose facility and office space. The \$6.7 million dollar will increase the levy \$2.84 per thousand for the twenty year bond. The board of directors has committed to abate the levy with 50% of SILO funds collected (\$150,000) to lower the levy to approximately a \$1.99 per thousand.

The Mount Ayr Community School District's enrollment decreased slightly for the 2007-08 school year. However, the districts certified enrollment actually increased by 7.6 students due to the district opening a pre-school. We believe this will have a positive impact on the community and preparing those students as they enter kindergarten.

Economically, statistics show Ringgold County as the fourth fastest growing rural county in the state of Iowa. In addition, a new energy corporation called Heartland Energy has opened its doors and they will start production of Wind Turbine blades in 2008. They will also expand into solar, hydrogen, biomass solutions and motion based propulsion in the future. We believe this will continue solid growth for the community, which should result in job opportunities and increased student enrollment.

The district is not currently collecting any board or voter approved PPEL monies for the 2007-08 school year in an attempt to keep the property tax as low as possible.

The districts valuations increased from \$173,660,614 to \$177,227,631 for the 2007-08 school year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Janette Campbell, District Secretary/Treasurer and Business Manager, Mount Ayr Community School District, 1001 East Columbus Street, Mount Ayr, IA 50854.

Basic Financial Statements

MOUNT AYR COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2007

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents:			
ISCAP	\$ 2,365,218	-	2,365,218
Other	568,976	34,751	603,727
Receivables:			
Property tax:			
Delinquent	45,909	-	45,909
Succeeding year	2,770,395	-	2,770,395
Accounts	15,952	19	15,971
Accrued interest:			
ISCAP	24,062	-	24,062
Other	909	88	997
Due from other governments	323,610	-	323,610
Inventories	-	31,839	31,839
Capital assets, net of accumulated depreciation	6,446,907	30,149	6,477,056
Total assets	12,561,938	96,846	12,658,784
Liabilities			
Accounts payable	170,018	4,007	174,025
Salaries and benefits payable	664,652	21,468	686,120
Due to other governments	6,415	-	6,415
Other payables	13,097	-	13,097
Accrued interest payable	462	-	462
Deferred revenue:			
Succeeding year property tax	2,770,395	-	2,770,395
ISCAP warrants payable	2,370,000	-	2,370,000
ISCAP accrued interest payable	19,630	-	19,630
Long-term liabilities:			
Portion due within one year:			
Capital notes payable	23,558	-	23,558
Early retirement	34,200	-	34,200
Portion due after one year:			
Capital notes payable	91,836	-	91,836
Early retirement	128,800	-	128,800
Total liabilities	6,293,063	25,475	6,318,538
Net assets			
Invested in capital assets, net of related debt	6,331,513	30,149	6,361,662
Restricted for:			
Capital Projects	298,193	-	298,193
Management levy	38,941	-	38,941
Physical plant and equipment levy	23,462	-	23,462
Other special revenue purposes	92,879	-	92,879
Unrestricted	(516,113)	41,222	(474,891)
Total net assets	\$ 6,268,875	71,371	6,340,246

See notes to financial statements.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year ended June 30, 2007

		Program Revenues	
		Charges for	Operating Grants, Contributions and Restricted Interest
	Expenses	Service	
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 2,630,315	375,073	378,685
Special instruction	1,243,493	288,832	246,749
Other instruction	953,836	285,589	89,943
	4,827,644	949,494	715,377
Support Service:			
Student services	187,825	-	-
Instructional staff services	277,497	-	-
Administration services	870,892	-	-
Operating and maintenance of plant services	572,790	150	-
Transportation services	556,423	-	-
	2,465,427	150	-
Non-instructional programs	22,506	-	-
Other expenditures:			
Long-term debt interest	6,269	-	-
AEA flowthrough	228,129	-	228,129
Depreciation (unallocated)*	16,880	-	-
	251,278	-	228,129
Total governmental activities	7,566,855	949,644	943,506
Business type activities:			
Non-instructional programs:			
Nutrition services	332,437	165,789	175,003
Other enterprise services	382	1,643	-
Total business type activities	332,819	167,432	175,003
Total Primary Government	\$ 7,899,674	1,117,076	1,118,509

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(1,876,557)	-	(1,876,557)
(707,912)	-	(707,912)
(578,304)	-	(578,304)
(3,162,773)	-	(3,162,773)
(187,825)	-	(187,825)
(277,497)	-	(277,497)
(870,892)	-	(870,892)
(572,640)	-	(572,640)
(556,423)	-	(556,423)
(2,465,277)	-	(2,465,277)
(22,506)	-	(22,506)
(6,269)	-	(6,269)
-	-	-
(16,880)	-	(16,880)
(23,149)	-	(23,149)
(5,673,705)	-	(5,673,705)
-	8,355	8,355
-	1,261	1,261
-	9,616	9,616
(5,673,705)	9,616	(5,664,089)

MOUNT AYR COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year ended June 30, 2007

	<u>Program Revenues</u>		
		Charges for	Operating Grants, Contributions and Restricted Interest
	<u>Expenses</u>	<u>Service</u>	
Totals from previous pages	<u>\$ 7,899,674</u>	<u>1,117,076</u>	<u>1,118,509</u>
General Revenues:			
Property tax levied for:			
General purposes			
Local option sales and services tax			
Unrestricted state grants			
Unrestricted investment earnings			
Gain on sale of capital assets			
Other			
Contributions			
Total general revenues			
Change in net assets			
Net assets beginning of year			
Net assets end of year			

* This amount excludes the depreciation that is included in the direct expense of the various programs.

See notes to financial statements.

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(5,673,705)	9,616	(5,664,089)
2,391,127	-	2,391,127
375,889	-	375,889
2,547,543	-	2,547,543
123,257	1,340	124,597
20,622	-	20,622
50,216	-	50,216
10,903	-	10,903
5,519,557	1,340	5,520,897
(154,148)	10,956	(143,192)
6,423,023	60,415	6,483,438
\$ 6,268,875	71,371	6,340,246

MOUNT AYR COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007

	General	Capital Projects	Non-major Special Revenue	Total
Assets				
Cash and pooled investments:				
ISCAP	\$ 2,365,218	-	-	2,365,218
Other	127,341	256,932	182,955	567,228
Receivables:				
Property tax:				
Delinquent	43,967	-	1,942	45,909
Succeeding year	2,620,395	-	150,000	2,770,395
Accounts	15,952	-	-	15,952
Accrued interest:				
ISCAP	24,062	-	-	24,062
Other	520	65	324	909
Due from other governments	223,867	99,743	-	323,610
Total assets	\$ 5,421,322	356,740	335,221	6,113,283
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 81,532	58,547	29,939	170,018
Salaries and benefits payable	664,652	-	-	664,652
Due to other governments	6,415	-	-	6,415
Early retirement payable	34,200	-	-	34,200
ISCAP warrants payable	2,370,000	-	-	2,370,000
ISCAP accrued interest payable	19,630	-	-	19,630
Other payables	13,097	-	-	13,097
Deferred revenue:				
Succeeding year property tax	2,620,395	-	150,000	2,770,395
Total liabilities	5,809,921	58,547	179,939	6,048,407
Fund balances:				
Unreserved	(388,599)	298,193	155,282	64,876
Total fund balances	(388,599)	298,193	155,282	64,876
Total liabilities and fund balances	\$ 5,421,322	356,740	335,221	6,113,283

See notes to financial statements.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 June 30, 2007

Total fund balances of governmental funds (Exhibit C)	\$	64,876
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***Amounts reported for governmental activities in the
 Statement of Net Assets are different because:***

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		6,446,907
--	--	-----------

The Internal Service Fund is used by management to charge the costs of the District's flexible benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.		1,748
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Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(462)
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Long-term liabilities, including bonds payable and early retirement, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.

Total long-term debt	\$	(278,394)	
Portion of Early Retirement reflected on governmental funds		34,200	(244,194)

Net assets of governmental activities (Exhibit A)	\$	<u>6,268,875</u>
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See notes to financial statements.

Exhibit E

MOUNT AYR COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year ended June 30, 2007

	General	Debt Service	Capital Projects	Non-major Special Revenue	Total
Revenues:					
Local sources:					
Local tax	\$ 2,294,615	-	375,889	96,512	2,767,016
Tuition	608,610	-	-	-	608,610
Other	237,062	-	1,897	300,332	539,291
Intermediate sources	16,026	-	-	-	16,026
State sources	3,115,777	-	-	70	3,115,847
Federal sources	345,295	-	-	-	345,295
Total revenues	6,617,385	-	377,786	396,914	7,392,085
Expenditures:					
Current:					
Instruction:					
Regular	2,437,508	-	-	3,739	2,441,247
Special	1,229,717	-	-	-	1,229,717
Other	644,780	-	-	286,550	931,330
	4,312,005	-	-	290,289	4,602,294
Support services:					
Student	185,798	-	-	-	185,798
Instructional staff	250,048	-	39,016	-	289,064
Administration	805,551	-	-	60,851	866,402
Operation and maintenance of plant	520,310	-	-	35,701	556,011
Transportation	335,632	-	124,588	43,211	503,431
	2,097,339	-	163,604	139,763	2,400,706
Other expenditures:					
Facilities acquisition	-	-	83,140	18,855	101,995
Long-term debt:					
Principal	-	22,467	-	-	22,467
Interest and fiscal charges	-	6,351	-	-	6,351
AEA flowthrough	228,129	-	-	-	228,129
	228,129	28,818	83,140	18,855	358,942
Total expenditures	6,637,473	28,818	246,744	448,907	7,361,942
Excess (deficiency) of revenues over (under) expenditures	(20,088)	(28,818)	131,042	(51,993)	30,143
Other financing sources (uses):					
Operating transfers in	-	28,818	-	-	28,818
Operating transfers out	-	-	-	(28,818)	(28,818)
Sale of equipment	28,483	-	-	-	28,483
Total other financing sources (uses)	28,483	28,818	-	(28,818)	28,483
Net change in fund balances	8,395	-	131,042	(80,811)	58,626
Fund balances beginning of year	(396,994)	-	167,151	236,093	6,250
Fund balances end of year	\$ (388,599)	-	298,193	155,282	64,876

See notes to financial statements.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 Year ended June 30, 2007

Net change in fund balances - total governmental funds (Exhibit E) \$ 58,626

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 175,928	
Depreciation expense	<u>(370,266)</u>	(194,338)

In the Statement of Activities, the loss on the disposition of capital assets is reported, whereas the governmental funds report the proceeds from the disposition as an increase in financial resources. The loss on disposition of capital assets and the proceeds from disposition are as follows:

Gain on disposition of capital assets	20,622	
Proceeds from the disposition	<u>(28,483)</u>	(7,861)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.

22,467

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

82

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement		(33,300)
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The change in net assets of the Internal Service Funds represent an undercharge to the governmental funds served and, therefore, increases expenses in the Statement of Activities.

176

Change in net assets of governmental activities (Exhibit B)

\$ (154,148)

See notes to financial statements.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2007

	Business Type Activities	Governmental Activities
	Non-major Enterprise Fund	Internal Services Fund
Assets		
Current assets:		
Cash and investments	\$ 34,751	1,748
Accounts receivable	19	-
Accrued interest	88	-
Inventories	31,839	-
Total current assets	<u>66,697</u>	<u>1,748</u>
Non-current assets:		
Property and equipment:		
Machinery and equipment	266,887	-
Accumulated depreciation	(236,738)	-
Total non-current assets	<u>30,149</u>	<u>-</u>
Total assets	<u>96,846</u>	<u>1,748</u>
Liabilities		
Current liabilities:		
Accounts payable	4,007	-
Salaries and benefits payable	21,468	-
Total current liabilities	<u>25,475</u>	<u>-</u>
Net Assets		
Invested in capital assets, net of related debt	30,149	-
Unrestricted	<u>41,222</u>	<u>1,748</u>
Total net assets	<u>\$ 71,371</u>	<u>1,748</u>

See notes to financial statements.

Exhibit H

MOUNT AYR COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year ended June 30, 2007

	Business Type Activities	Governmental Activities
	Non-major Enterprise Fund	Internal Services Fund
Operating revenues:		
Local sources:		
Charges for services	\$ 167,432	176
Operating expenses:		
Non-instructional programs:		
Food service operations:		
Depreciation	756	-
Other	331,681	-
	332,437	-
Other enterprise operations:		
Other	382	-
Total operating expenses	332,819	-
Operating income (loss)	(165,387)	176
Non-operating revenues:		
Local sources	1,340	-
State sources	4,533	-
Federal sources	170,470	-
Total non-operating revenues	176,343	-
Net income	10,956	176
Net assets beginning of year	60,415	1,572
Net assets end of year	\$ 71,371	1,748

See notes to financial statements.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year ended June 30, 2007

	Business Type Activities Non-major Enterprise Fund	Governmental Activities Internal Services Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 165,886	-
Cash received from miscellaneous operating activities	1,624	176
Cash paid to employees for services	(172,362)	-
Cash paid to suppliers for goods or services	(141,606)	-
Net cash provided (used) by operating activities	(146,458)	176
Cash flows from non-capital financing activities:		
State grants received	4,533	-
Federal grants received	158,932	-
Net cash provided by non-capital financing activities	163,465	-
Cash flows from investing activities:		
Interest on investments	1,252	-
Net increase in cash and cash equivalents	18,259	176
Cash and cash equivalents at beginning of year	16,492	1,572
Cash and cash equivalents at end of year	\$ 34,751	1,748
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (165,387)	176
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Commodities used	26,517	-
Depreciation	756	-
Decrease in accounts receivable	78	-
(Increase) in inventories	(7,998)	-
Increase in accounts payable	4,007	-
(Decrease) in salaries and benefits payable	(4,431)	-
Net cash provided (used) by operating activities	\$ (146,458)	176
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:		
Current assets:		
Cash	\$ 34,751	1,748
Cash and cash equivalents at year end	\$ 34,751	1,748

Non-cash investing, capital and financing activities:

During the year ended June 30, 2007, the District received federal commodities valued at \$26,517.

See notes to financial statements.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2007

	<u>Expendable Trusts</u>
	<u>Memorial Fund</u>
Assets	
Cash and investments	\$ 3,359
Total assets	<u>3,359</u>
Net assets	
Held in trust for special purposes	<u>\$ 3,359</u>

See notes to financial statements.

Exhibit K

MOUNT AYR COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2007

	<u>Expendable Trusts</u>	<u>Memorial Fund</u>
Additions:		
Local sources:		
Gifts and contributions	\$ 10,200	
Total additions	<u>10,200</u>	
Deductions:		
Support services:		
Supplies	<u>8,553</u>	
Total deductions	<u>8,553</u>	
Change in net assets	1,647	
Net assets beginning of year	<u>1,712</u>	
Net assets end of year	<u>\$ 3,359</u>	

See notes to financial statements.

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS Year Ending June 30, 2007

(1) Summary of Significant Accounting Policies

The Mount Ayr Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Mount Ayr, Iowa, and the predominate agricultural territories in Ringgold and Taylor Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Mount Ayr Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Mount Ayr Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Ringgold County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS Year Ending June 30, 2007

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

Additionally, the District reports the following fund types:

Governmental Funds:

1. Non-major Special Revenue Funds - The District accounts for resources restricted to, or designated for, a specific purpose by the District or a grantor in a special revenue fund. State and Local financial assistance is accounted for in a State or Local Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.

Proprietary Funds:

2. Enterprise Funds - The District accounts for food service operations and student construction operations in the Enterprise Funds.
3. Internal Service Funds - Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis are accounted for in an internal service fund. The District's Internal Service Funds are the Flex Benefit Funds.

Fiduciary Funds:

4. Agency Funds - The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Fund was the Memorial Fund and these funds have been received in the form of a memorial donation to be used for a designated school purpose.

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS Year Ending June 30, 2007

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and early retirement are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

The proprietary funds of the District apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
Year Ending June 30, 2007

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable – Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS Year Ending June 30, 2007

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 2,500
Buildings	2,500
Improvements other than buildings	2,500
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
Year Ending June 30, 2007

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, expenditures exceeded the amounts budgeted in the other expenditures function.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk. The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

(3) **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenue:	
	Physical Plant and Equipment Levy	<u>\$ 28,818</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
Year Ending June 30, 2007

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2007 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investment	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-07B	1/26/2007	1/25/2008	\$ 1,067,272	23,674	1,070,000	19,310
2007-08A	6/28/2007	6/27/2008	1,297,946	388	1,300,000	320
Total			<u>\$ 2,365,218</u>	<u>24,062</u>	<u>2,370,000</u>	<u>19,630</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2007 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2006-07A	\$ -	980,000	980,000	-
2006-07B	-	450,000	450,000	-
Total	<u>\$ -</u>	<u>1,430,000</u>	<u>1,430,000</u>	<u>-</u>

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07A	4.500%	5.676%
2006-07B	4.250%	5.315%
2007-08A	4.500%	5.455%

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
Year Ending June 30, 2007

(5) Capital Assets

Capital assets activity for the year ended June 30, 2007 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 118,185	-	-	118,185
Total capital assets not being depreciated	118,185	-	-	118,185
Capital assets being depreciated:				
Buildings	9,911,547	-	-	9,911,547
Improvements other than buildings	437,424	-	-	437,424
Furniture and equipment	2,887,469	175,928	78,609	2,984,788
Total capital assets being depreciated	13,236,440	175,928	78,609	13,333,759
Less accumulated depreciation for:				
Buildings	4,550,178	176,449	-	4,726,627
Improvements other than buildings	273,178	13,144	-	286,322
Furniture and equipment	1,882,163	180,673	70,748	1,992,088
Total accumulated depreciation	6,705,519	370,266	70,748	7,005,037
Total capital assets being depreciated, net	6,530,921	(194,338)	7,861	6,328,722
Governmental activities capital assets, net	\$ 6,649,106	(194,338)	7,861	6,446,907
Business type activities:				
Furniture and equipment	\$ 266,887	-	-	266,887
Less accumulated depreciation	235,982	756	-	236,738
Business type activities capital assets, net	\$ 30,905	(756)	-	30,149

Depreciation expense was charged to the following functions:

Governmental activities:

Instruction:

Regular	\$ 172,677
Special	13,776
Other	22,506

Support services:

Student	5,627
Instructional staff	13,433
Administration	8,090
Operation and maintenance of plant	16,779
Transportation	77,992
Non-instructional programs	22,506

353,386

Unallocated

16,880

Total depreciation expense - governmental activities

\$ 370,266

Business type activities:

Food services

\$ 756

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS Year Ending June 30, 2007

(6) Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2007 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Capital loan notes	\$ 137,861	-	22,467	115,394	23,558
Early retirement	124,700	67,500	29,200	163,000	34,200
	<u>\$ 262,561</u>	<u>67,500</u>	<u>51,667</u>	<u>278,394</u>	<u>57,758</u>

Capital Loan Notes

Details of the District's June 30, 2007 capital loan note indebtedness are as follows:

Period Ending June 30,	2001 Capital Loan Note			
	Interest Rate	Principal	Interest	Total
2008	4.80%	\$ 23,558	5,260	28,818
2009	4.80%	24,702	4,116	28,818
2010	4.80%	25,902	2,916	28,818
2011	4.80%	27,161	1,657	28,818
2012	4.80%	14,071	338	14,409
Total		<u>\$ 115,394</u>	<u>14,287</u>	<u>129,681</u>

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$256,262, \$247,684, and \$236,143, respectively, equal to the required contributions for each year.

(8) Termination Benefits

The District offers a voluntary early retirement plan to its full-time, certified employees. Eligible employees must be at least age fifty-four by September 1, but not more than sixty-two years of age by June 1 preceding the year of retirement and employees must have completed ten years of service to the District. Employees must complete an application and an attached letter of resignation which is required to be approved by the Board of Education.

MOUNT AYR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
Year Ending June 30, 2007

The early retirement incentive for each eligible employee is the difference between the salary schedule base and the employee's placement on the salary schedule using the salary schedule in effect for the last year of employment and subject to a maximum of \$19,475 to \$36,000 per individual depending upon the individual's level of education and service to the District.

Early retirement benefits are paid monthly and cease when the retiree reaches the age of 65.

At June 30, 2007, the District has obligations to 15 participants with a total liability of \$163,000. Actual early retirement expenditures for the year ended June 30, 2007 totaled \$29,200.

(9) Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$228,129 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Deficit Fund Balance

The General Fund had a deficit balance of \$388,599 as of June 30, 2007.

(12) Subsequent Event

On October 16, 2007 the voters approved a \$6.7 million dollar bond issue. The proceeds of the bonds will be used to build and furnish additions to the elementary and middle school/high school buildings as well as remodel and improve the existing buildings.

Required Supplementary Information

MOUNT AYR COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN BALANCES - BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
Year ended June 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts		Final to Actual Variance- Positive (Negative)
				Original	Final	
Revenues:						
Local sources	\$ 3,914,917	168,772	4,083,689	3,839,382	3,839,382	244,307
Intermediate sources	16,026	-	16,026	12,000	12,000	4,026
State sources	3,115,847	4,533	3,120,380	3,240,222	3,240,222	(119,842)
Federal sources	345,295	170,470	515,765	446,000	446,000	69,765
Total revenues	7,392,085	343,775	7,735,860	7,537,604	7,537,604	198,256
Expenditures:						
Instruction	4,602,294	-	4,602,294	4,453,000	4,900,000	297,706
Support services	2,400,706	-	2,400,706	2,458,900	2,458,900	58,194
Non-instructional programs	-	332,819	332,819	341,550	350,000	17,181
Other expenditures	358,942	-	358,942	270,721	310,000	(48,942)
Total expenditures	7,361,942	332,819	7,694,761	7,524,171	8,018,900	324,139
Excess of revenues over expenditures	30,143	10,956	41,099	13,433	(481,296)	522,395
Other financing sources, net	28,483	-	28,483	5,000	5,000	23,483
Excess of revenues and other financing sources over expenditures and other financing uses	58,626	10,956	69,582	18,433	(476,296)	545,878
Balances beginning of year	6,250	60,415	66,665	425,486	425,486	(358,821)
Balances end of year	\$ 64,876	71,371	136,247	443,919	(50,810)	187,057

See accompanying independent auditor's report.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
Year ended June 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$494,729.

During the year ended June 30, 2007, expenditures exceeded the amounts budgeted in the other expenditures function and the District exceeded its General Fund unspent authorized budget.

Other Supplementary Information

MOUNT AYR COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
June 30, 2007

	Management	Student Activity	Physical Plant and Equipment Levy	Total
Assets				
Cash and pooled investments	\$ 41,790	92,879	48,286	182,955
Receivables:				
Property tax:				
Delinquent	1,942	-	-	1,942
Succeeding year	150,000	-	-	150,000
Accrued interest	148	-	176	324
Total assets	\$ 193,880	92,879	48,462	335,221
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	\$ 4,939	-	25,000	29,939
Deferred revenue:				
Succeeding year property tax	150,000	-	-	150,000
Total liabilities	154,939	-	25,000	179,939
Fund equity:				
Fund balances:				
Unreserved fund balances	38,941	92,879	23,462	155,282
Total liabilities and fund equity	\$ 193,880	92,879	48,462	335,221

See accompanying independent auditor's report.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 June 30, 2007

	Management	Student Activity	Physical Plant and Equipment Levy	Total
Revenues:				
Local sources:				
Local tax	\$ 96,512	-	-	96,512
Other	13,537	285,797	998	300,332
	110,049	285,797	998	396,844
State sources:				
Revenue in lieu of taxes - military credit	70	-	-	70
Total revenues	110,119	285,797	998	396,914
Expenditures:				
Instruction:				
Regular:				
Benefits	3,739	-	-	3,739
Co-curricular:				
Services	-	53,050	-	53,050
Supplies	-	138,681	-	138,681
Other	-	94,819	-	94,819
	-	286,550	-	286,550
Total instruction	3,739	286,550	-	290,289
Support Services:				
General administration:				
Benefits	47,991	-	-	47,991
Services	12,860	-	-	12,860
	60,851	-	-	60,851
Plant operation and maintenance:				
Benefits	-	-	-	-
Services	35,701	-	-	35,701
	35,701	-	-	35,701
Student transportation:				
Services	18,211	-	-	18,211
Property	-	-	25,000	25,000
	18,211	-	25,000	43,211
Total support services	114,763	-	25,000	139,763
Other expenditures:				
Facilities acquisition:				
Property	-	-	18,855	18,855
Total expenditures	118,502	286,550	43,855	448,907

Schedule 2

MOUNT AYR COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS

June 30, 2007

	Management	Student Activity	Physical Plant and Equipment Levy	Total
Deficiency of revenues under expenditures	(8,383)	(753)	(42,857)	(51,993)
Other financing uses:				
Operating transfers out	-	-	(28,818)	(28,818)
Total other financing uses	-	-	(28,818)	(28,818)
Net change in fund balances	(8,383)	(753)	(71,675)	(80,811)
Fund balance beginning of year	47,324	93,632	95,137	236,093
Fund balance end of year	\$ 38,941	92,879	23,462	155,282

See accompanying independent auditor's report.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2007

	Enterprise Funds		
	School Nutrition	Student Construction	Total
Assets			
Current assets:			
Cash and investments	\$ 29,875	4,876	34,751
Accounts receivable	-	19	19
Accrued interest	88	-	88
Inventories	31,839	-	31,839
Total current assets	61,802	4,895	66,697
Non-current assets:			
Property and equipment:			
Machinery and equipment	266,887	-	266,887
Accumulated depreciation	(236,738)	-	(236,738)
Total non-current assets	30,149	-	30,149
Total assets	91,951	4,895	96,846
Liabilities			
Current liabilities:			
Accounts payable	4,007	-	4,007
Salaries and benefits payable	21,468	-	21,468
Total current liabilities	25,475	-	25,475
Net Assets			
Invested in capital assets, net of related debt	30,149	-	30,149
Unrestricted	36,327	4,895	41,222
Total net assets	\$ 66,476	4,895	71,371

See accompanying independent auditor's report.

Schedule 4

MOUNT AYR COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUNDS
 June 30, 2007

	Enterprise Funds		
	School Nutrition	Student Construction	Total
Operating revenues:			
Local sources:			
Other local sources:			
Food service sales	\$ 152,126	-	152,126
Miscellaneous	13,663	1,643	15,306
Total operating revenues	165,789	1,643	167,432
Operating expenses:			
Instruction:			
Other instruction:			
Supplies	-	382	382
Non-instructional programs:			
Food services operations:			
Salaries	142,943	-	142,943
Benefits	24,988	-	24,988
Supplies	163,750	-	163,750
Depreciation	756	-	756
	332,437	-	332,437
Total operating expenses	332,437	382	332,819
Operating gain (loss)	(166,648)	1,261	(165,387)
Non-operating revenues:			
Interest on investments	1,340	-	1,340
State lunch and breakfast program claims	4,533	-	4,533
National School Lunch Program	107,592	-	107,592
School Breakfast Program	36,361	-	36,361
Food distribution	26,517	-	26,517
Total non-operating revenues	176,343	-	176,343
Net income	9,695	1,261	10,956
Net assets beginning of year	56,781	3,634	60,415
Net assets end of year	\$ 66,476	4,895	71,371

See accompanying independent auditor's report.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF CASH FLOWS
PROPRIETARY FUNDS
June 30, 2007

	Enterprise Funds		
	School Nutrition	Student Construction	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 165,886	-	165,886
Cash received from miscellaneous operating activities	-	1,624	1,624
Cash payments to employees for services	(172,362)	-	(172,362)
Cash payments to suppliers for goods or services	(141,224)	(382)	(141,606)
Net cash provided (used) by operating activities	(147,700)	1,242	(146,458)
Cash flows from non-capital financing activities:			
State grants received	4,533	-	4,533
Federal grants received	158,932	-	158,932
Net cash provided by non-capital financing activities	163,465	-	163,465
Cash flows from investing activities:			
Interest on investments	1,252	-	1,252
Net increase in cash and cash equivalents	17,017	1,242	18,259
Cash and cash equivalents at beginning of year	12,858	3,634	16,492
Cash and cash equivalents at end of year	\$ 29,875	4,876	34,751
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (166,648)	1,261	(165,387)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Commodities used	26,517	-	26,517
Depreciation	756	-	756
(Increase) decrease in accounts receivable	97	(19)	78
(Increase) in inventories	(7,998)	-	(7,998)
Increase in accounts payable	4,007	-	4,007
(Decrease) in salaries and benefits payable	(4,431)	-	(4,431)
Net cash provided (used) by operating activities	\$ (147,700)	1,242	(146,458)
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:			
Current assets:			
Cash	\$ 29,875	4,876	34,751
Cash and cash equivalents at year end	\$ 29,875	4,876	34,751

Non-cash investing, capital and financing activities:

During the year ended June 30, 2007, the District received federal commodities valued at \$26,517.

See accompanying independent auditor's report.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year ended June 30, 2007

Account	Balance Beginning of Year	Revenues and Transfers In	Expenditures	Balance End of Year
Adult Education	\$ 1,836	3,726	2,794	2,768
Alternative School	749	-	-	749
Art Club	461	-	-	461
Athletics:				
Football	14,224	46,218	46,602	13,840
Volleyball	1,832	4,716	4,394	2,154
Wrestling	(1,068)	8,099	8,639	(1,608)
Boys' basketball	7,599	8,127	6,090	9,636
Girls' basketball	7,941	6,837	6,996	7,782
Boys' track	(6,735)	3,332	4,969	(8,372)
Girls' track	(3,757)	6,084	9,769	(7,442)
Golf	(2,362)	1,903	2,859	(3,318)
Baseball	(1,964)	11,168	12,121	(2,917)
Softball	(443)	11,522	10,116	963
Miscellaneous	(3,186)	209	1,394	(4,371)
Ayrian	(149)	9,068	7,454	1,465
Band	1,344	4,417	4,486	1,275
Charity Counts	111	53	-	164
Cheerleaders	2,550	6,198	8,883	(135)
Class:				
2005	1,859	6,459	7,738	580
2006	7,048	18,205	19,235	6,018
2007	(289)	1,608	783	536
2008	1,224	4,205	1,654	3,775
Drama Club	467	8,846	8,596	717
Drill Team	3,307	8,328	7,929	3,706
Elementary Activities	3,560	6,911	2,153	8,318
Elementary Library	2,147	75	10	2,212
Elementary Student Council	1,228	7,193	6,365	2,056
Future Farmers of America	19,961	41,271	42,385	18,847
Future Homemakers of America	53	378	328	103
F.T.A.	270	1,705	-	1,975
Gifts/Memorials	3,198	3,500	1,960	4,738
Industrial Arts	41	707	778	(30)
Jr. High School	9,916	12,617	12,289	10,244
Library Club	178	890	831	237
Miscellaneous	2,201	4,562	2,980	3,783
Office education (BPA)	2,523	-	-	2,523
Pep Club	10,690	3,274	13,571	393
Resale	(424)	6,161	5,461	276
S.A.D.D.	430	641	485	586
Science Club	732	170	301	601
Elementary Yearbook	52	2,105	1,953	204

Schedule 6

MOUNT AYR COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 Year ended June 30, 2007

Account	Balance Beginning of Year	Revenues and Transfers In	Expenditures	Balance End of Year
International Club	132	2,723	1,418	1,437
Special Olympics	175	3,650	2,951	874
Student Council	367	1,363	1,491	239
Vocal music	2,722	2,747	3,401	2,068
Weightlifting	881	3,826	1,938	2,769
Total	\$ 93,632	285,797	286,550	92,879

See accompanying independent auditor's report.

MOUNT AYR COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUNDS
FOR THE LAST SIX YEARS

	Modified Accrual Basis					
	2007	2006	2005	2004	2003	2002
Revenues:						
Local sources:						
Local tax	\$ 2,767,016	2,572,488	2,451,825	2,376,629	2,377,295	2,024,160
Tuition	608,610	529,221	423,715	468,609	545,882	546,584
Other	539,291	452,485	456,198	367,281	450,124	417,165
Intermediate sources	16,026	9,184	11,461	19,491	23,885	45,615
State sources	3,115,847	3,178,765	3,108,574	3,374,553	3,335,123	3,411,878
Federal sources	345,295	357,147	283,269	271,334	260,386	289,085
Total	<u>\$ 7,392,085</u>	<u>7,099,290</u>	<u>6,735,042</u>	<u>6,877,897</u>	<u>6,992,695</u>	<u>6,734,487</u>
Expenditures:						
Instruction:						
Regular	\$ 2,441,247	2,252,637	2,263,656	2,383,276	2,195,590	2,318,024
Special	1,229,717	1,359,199	1,317,696	1,271,789	1,330,654	1,301,817
Other	931,330	973,588	779,600	758,563	717,350	751,655
Support services:						
Student	185,798	206,175	174,313	148,048	142,481	187,156
Instructional staff	289,064	304,577	320,562	203,150	256,930	208,759
Administration	866,402	825,682	760,148	631,628	610,999	599,970
Operation and maintenance of plant	556,011	573,287	580,080	451,782	490,606	432,079
Transportation	503,431	425,201	318,102	288,136	268,432	311,839
Central support	-	-	65,926	54,662	95,673	156,355
Other support	-	-	-	8,845	-	-
Other expenditures:						
Facilities acquisition	101,995	223,998	367,132	145,579	5,158	607,785
Long-term debt:						
Principal	22,467	46,419	43,833	41,363	204,463	188,912
Interest and other charges	6,351	7,392	9,978	12,448	18,409	24,708
AEA flowthrough	<u>228,129</u>	<u>222,117</u>	<u>218,935</u>	<u>228,706</u>	<u>246,674</u>	<u>249,067</u>
Total	<u>\$ 7,361,942</u>	<u>7,420,272</u>	<u>7,219,961</u>	<u>6,627,975</u>	<u>6,583,419</u>	<u>7,338,126</u>

See accompanying independent auditor's report.

MOUNT AYR COMMUNITY SCHOOL DISTRICT



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of
Mount Ayr Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Mount Ayr Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents and have issued our report thereon dated November 7, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mount Ayr Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Mount Ayr Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Mount Ayr Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Mount Ayr Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Mount Ayr Community School District's financial statements that is more than inconsequential will not be prevented or detected by Mount Ayr Community School District's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Mount Ayr Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-07 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mount Ayr Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Mount Ayr Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Mount Ayr Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Mount Ayr Community School District and other parties to whom Mount Ayr Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Mount Ayr Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Van Maanen & Associates, P.C.

Van Maanen & Associates, P.C.
Certified Public Accountants

November 7, 2007

MOUNT AYR COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year ended June 30, 2007

Part I: Summary of the Independent Auditor's Results

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE

No matters were noted.

SIGNIFICANT DEFICIENCIES

II-A-07 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, expenditures are recorded and checks are prepared by the same person

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs for Federal Awards

Not applicable since less than \$500,000 in federal awards.

Part IV: Other Findings Related to Required Statutory Reporting

IV-A-07 Certified Budget - Expenditures for the year ended June 30, 2007 exceeded the amended certified budget amounts in the other expenditure function.

Recommendation – The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response – Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion – Response accepted.

MOUNT AYR COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year ended June 30, 2007

- IV-B-07 Questionable Expenditures - No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- IV-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- IV-D-07 Business Transactions - No business transactions were noted between the District and District officials or employees.
- IV-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- IV-F-07 Board Minutes - No transactions were noted requiring Board approval which had not been approved by the Board.
- IV-G-07 Certified Enrollment - No variances were noted in the basic enrollment data certified to the Department of Education.
- IV-H-07 Deposits and Investments - No instances of noncompliance were noted with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy.
- IV-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- IV-J-07 Sale of Property - During the year ended June 30, 2007, the District made sales of property in accordance with Chapter 297.22 of the Code of Iowa.
- IV-K-07 Deficit Balances – The General Fund had a deficit balance at June 30, 2007. Also, several student activity accounts had deficit balances at June 30, 2007.

Recommendation – The District should investigate alternatives to eliminate these deficits in order to return these accounts to sound financial positions.

Response – The deficit balances are being looked into and the District hopes to have these deficit balances resolved in the upcoming year.

Conclusion – Response accepted.